

Performance targets from supervisors' and employees perspectives

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10 Appendix D: Valorization-addendum

Target setting is a highly relevant topic for organizations and their members. As already outlined in the introduction, studies show that up to 97 % of the companies use budgets and targets to coordinate the actions within the organization and motivate their employees (Umapathy 1987; Libby and Lindsay 2010; Hansen and Van der Stede 2004). Thereby, these targets are not only relevant for specialized accounting departments and their members, but every single employee within an organization is affected. Investigating supervisors' target setting decisions as well as the effect that targets have on the motivation and investment decision of employees can increase the effectiveness of such systems.

The three studies I describe in this dissertation address common issues firms are facing and have concrete implications for organizations. For example, many companies have policies in place - or consider implementing policies - where supervisors gain experience in various functions and areas within a company. This certainly can benefit the understanding of the business model and the different tasks necessary. However, as I show in my study, it also has implications for the target setting decisions that supervisors make. Specifically, supervisors' task experience on the employees' task can lead supervisors to overemphasize their own experiences and discount relevant other signals that they receive about the expected performance of employees. Thus, having own task experience on employees' tasks could mislead supervisors in their decision making. Incorporating the findings of my study in organizational training programs can help increasing supervisors' awareness of these potential problems and thus mitigate these issues. This not only leads to a more effective use of target setting systems for planning and coordination, but can also assure that targets are set at achievable levels for employees and maximize their motivation. Thereby, target setting systems can lead to higher success of the company and to greater employees' well-being.

Furthermore, to succeed in the long-run, companies need to find a balance between maximizing short-term output and investing in projects that build the basis for future success. As a consequence, individual employees are often responsible for both short-term output and long-term investments. However, as the effort is hard to observe and the success of such long-term investments is highly uncertain, companies need to find other ways to prompt them. In this dissertation I show that the use of past performance information in setting new targets triggers such investments by reducing the negative effects of the horizon problem. While prior research has shown that using past performance information leads to lower effort of individuals, I show that it can increase long-term investments. Thus, even though policies where targets increase over time because of good performance are often alleged to reduce the effort employees spend, I show that employees use the additional time to invest in future success that can build the ground for firms' future success. Furthermore, from the employees' perspective, it also means that even though targets increase over time, this not necessarily means that they get more challenging. Hence, my study shows that companies that heavily rely on long-term investments or where the horizon problem of employees plays a major role, can use their target setting systems to provide implicit incentives for such investments. This

means that the predominantly negative perspective of target ratcheting may be adjusted to provide a better reflection of the expected behavior induced by such policies. This also means that executive teaching and (under-)graduate teaching programs can be enriched by the findings of the study. Consequently, current and future managers could get a more diverse understanding of the effects of using past performance information in setting targets which helps them to make better judgements about the costs and benefits of their decision in the future.

Furthermore, in a setting where individual employees are responsible for both short-term output production and creative activities, I show that the creativity of employees is affected by the target setting system around the short-term output task. Specifically, the results of my study suggest that a combination of input targets that provide guidance about the time allocation and output targets suggesting a minimum level of short-term output to achieve can increase the creative task performance of employees. As companies' often depend on the idea generation and creativity of their employees, identifying control mechanism and combinations to foster creative performance has immediate implications for such companies. Specifically, while companies often provide their employees with time guidance for spending time away from their routine tasks to pursue creative activities, this study shows that companies can increase the efficacy of such policies by also telling employees what to achieve on the routine task. Ideas generated by such policies have already led to great innovations from some companies in the past. Publishing the results in practitioner journals and present it at practice oriented conferences can help managers to identify aspects of how to improve their own systems in order to maximize their success probabilities. Furthermore, also on an individual level, people can benefit from having clear expectations what they need to have achieved before they switch to another task. By achieving cognitive closure about certain tasks, the effectiveness of the time spent on other tasks can be improved. Thus, by increasing the public knowledge about the study, both companies and individuals can benefit from the findings and implications.

To sum up, the three studies of this dissertation examine target setting from supervisors' and employees' perspectives. All studies have direct practical implications for managers and employees as outlined throughout the studies and summed up in this section. By incorporating the findings of the studies in teaching materials, publishing it in academic and practitioner oriented journals, and presenting the results at various practice workshops and conferences, this dissertation can help managers to improve the effectiveness of organizational target setting systems and employees to better cope with the challenges arising from multi-task jobs.